

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2006

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Spirit Lake Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Beth Will	President	2007
Ann Goerss	Vice President	2007
Cliff Garvey	Board Member	2005
Julie Nodland	Board Member	2006
Scott Wicks	Board Member	2006

Board of Education (After September 2005 Election)		
Beth Will	President	2007
Ann Goerss	Vice President	2007
Julie Nodland	Board Member	2006
Scott Wicks	Board Member	2006
Cliff Garvey	Board Member	2008

School Officials

Timothy Grieves	Superintendent	2006
Joyce Peschon	Board Secretary/Treasurer	2006
James Ladegaard	Attorney	2006
Lonnie Saunders	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Spirit Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spirit Lake Community School District, Spirit Lake, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spirit Lake Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

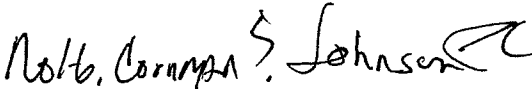
In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2006 on our consideration of Spirit Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spirit Lake Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

October 3, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Spirit Lake Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$9,712,655 in fiscal 2005 to \$10,417,661 in fiscal 2006, while General Fund expenditures increased from \$9,715,508 in fiscal 2005 to \$9,883,085 in fiscal 2006. This resulted in an increase in the District's General Fund balance from a deficit balance of \$21,964 in fiscal 2005 to a positive balance of \$419,295 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in local and state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in, support services costs.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Spirit Lake Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Spirit Lake Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Spirit Lake Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

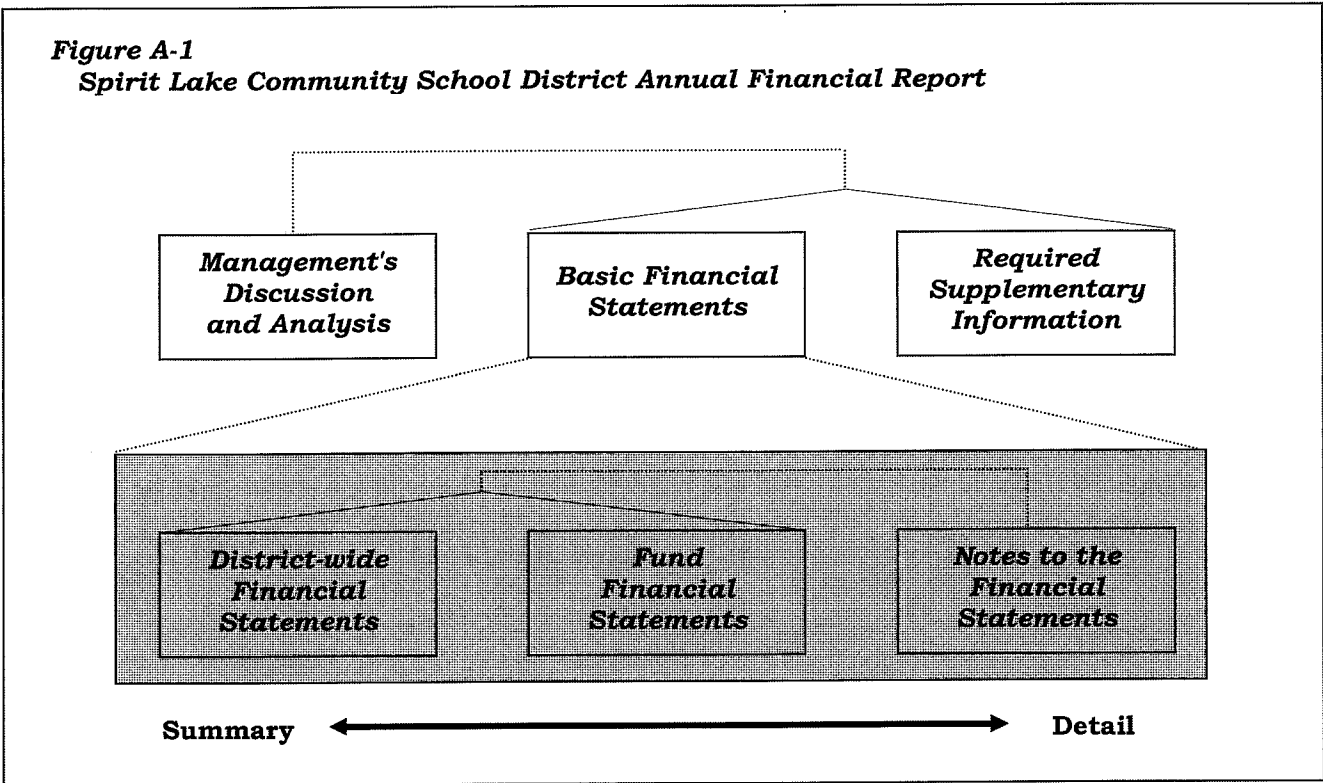


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the



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District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Before and After School Program.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 14,827,197	16,089,673	44,607	29,393	14,871,804	16,119,066	-7.74%
Capital assets	18,713,695	14,564,261	31,735	30,018	18,745,430	14,594,279	28.44%
Total assets	33,540,892	30,653,934	76,342	59,411	33,617,234	30,713,345	9.45%
Long-term obligations	11,715,831	12,677,790	0	0	11,715,831	12,677,790	-7.59%
Other liabilities	8,754,848	7,870,381	28,109	11,150	8,782,957	7,881,531	11.44%
Total liabilities	20,470,679	20,548,171	28,109	11,150	20,498,788	20,559,321	-0.29%
Net assets:							
Invested in capital assets, net of related debt	12,668,146	9,879,466	31,735	30,018	12,699,881	9,909,484	28.16%
Restricted	240,183	226,297	0	0	240,183	226,297	6.14%
Unrestricted	161,884	0	16,498	18,243	178,382	18,243	877.81%
Total net assets	\$ 13,070,213	10,105,763	48,233	48,261	13,118,446	10,154,024	29.19%

The District's combined net assets increased by 29.19%, or \$2,964,422, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$13,886, or 6.14% over the prior year. The increase was primarily a result of the District's increase in monies designated by the board.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$160,139, or 877.81%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,000,781	1,191,978	337,882	275,848	1,338,663	1,467,826	-8.80%
Operating grants and contributions and restricted interest	1,062,632	877,315	130,978	117,018	1,193,610	994,333	20.04%
Capital grants and contributions and restricted interest	0	500,361	0	0	0	500,361	-100.00%
General revenues:							
Property tax	6,267,529	5,859,719	0	0	6,267,529	5,859,719	6.96%
Local option sales and service tax	1,347,492	1,458,615	0	0	1,347,492	1,458,615	-7.62%
Unrestricted state grants	3,050,157	2,802,277	0	0	3,050,157	2,802,277	8.85%
Other	1,980,047	250,484	844	676	1,980,891	251,160	688.70%
Total revenues	14,708,638	12,940,749	469,704	393,542	15,178,342	13,334,291	13.83%
Program expenses:							
Governmental activities:							
Instructional	7,029,346	7,166,486	0	0	7,029,346	7,166,486	-1.91%
Support services	3,174,893	2,719,524	0	0	3,174,893	2,719,524	16.74%
Non-instructional programs	0	14,933	469,732	411,613	469,732	426,546	10.12%
Other expenses	1,539,949	1,301,193	0	0	1,539,949	1,301,193	18.35%
Total expenses	11,744,188	11,202,136	469,732	411,613	12,213,920	11,613,749	5.17%
Change in net assets	2,964,450	1,738,613	(28)	(18,071)	2,964,422	1,720,542	72.30%
Net assets beginning of year	10,105,763	8,367,150	48,261	66,332	10,154,024	8,433,482	20.40%
Net assets end of year	\$ 13,070,213	10,105,763	48,233	48,261	13,118,446	10,154,024	29.19%

In fiscal 2006, property tax and unrestricted state grants account for 63.3% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 100% of the revenue from business type activities.

The District's total revenues were approximately \$15.2 million of which \$14.7 million was for governmental activities and \$.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 13.83% in revenues and a 5.17% increase in expenses. The increase in expenses was related to the increase in support service and construction costs during the year.

### Governmental Activities

Revenues for governmental activities were \$14,708,638 and expenses were \$11,744,188. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,029,346	5,428,687
Support services	3,174,893	3,174,893
Other expenses	1,539,949	1,077,195
Totals	<u>\$ 11,744,188</u>	<u>9,680,775</u>

- The cost financed by users of the District's programs was \$1,000,781.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,062,632.
- The net cost of governmental activities was financed with \$6,267,529 in property tax, \$1,347,492 in local option sales and services tax, \$3,050,157 in unrestricted state grants and \$341,338 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$469,704 and expenses were \$469,732. The District's business-type activities includes the School Nutrition Fund and the Before and After School Program. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Spirit Lake Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$5,946,733, compared to last year's ending fund balances of a \$8,118,153. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to the increased costs from the construction projects.

### **Governmental Fund Highlights**

- The District's improving General Fund financial position is the product of many factors. The increases in expenditures were offset by the increase in total revenues. Increases in revenues were due to the increases in local and state revenues received during the year. Expenditures increased in the support services and other expenditures functions. Part of this is due to the increase in salaries and benefits paid out to employees. Another is the normal increases in prices of utilities, gas and other everyday expenditures. The fund balance increased from a deficit \$21,964 to a positive \$419,295.
- The Capital Projects Fund balance decreased from a \$6,636,929 in fiscal 2005 to \$3,737,463 in fiscal 2006. This was primarily due to the construction costs incurred during the year.
- The Debt Service Fund balance increased from \$1,163,339 in fiscal 2005 to \$1,463,234 in fiscal 2006. This increase was partially due to the increase in property tax monies.

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## Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$48,261 at June 30, 2005 to \$40,204 at June 30, 2006, representing a decrease of 16.7%. For fiscal 2006, the District had a large increase in supplies expense.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$2,064,500 more than budgeted revenues, a variance of 17.8%. The most significant variance resulted from the District receiving more from local sources than originally anticipated.

The certified budget was exceeded in the non-instructional programs and other expenditures functions.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$18,745,430, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 22.14% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$669,165.

The original cost of the District's capital assets was \$28.5 million. Governmental funds account for \$28.4 million with the remainder of \$.1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$5,028,001 at June 30, 2006, compared to \$953,541 reported at June 30, 2005. This increase resulted from the continued cost of the construction projects that weren't completed at year-end.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 300,000	300,000	0	0	300,000	300,000	0.00%
Construction in progress	5,028,001	953,541	0	0	5,028,001	953,541	81.04%
Buildings	11,669,954	11,432,728	0	0	11,669,954	11,432,728	2.03%
Land improvements	740,773	815,469	0	0	740,773	815,469	-10.08%
Machinery and equipment	974,967	1,062,523	31,735	30,018	1,006,702	1,092,541	-8.53%
Total	\$ 18,713,695	14,564,261	31,735	30,018	18,745,430	14,594,279	22.14%

### Long-Term Debt

At June 30, 2006, the District had \$11,715,831 in general obligation and other long-term debt outstanding. This represents a decrease of 7.6% from last year. (See Figure A-7) More detailed

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information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$1,050,000 at June 30, 2006.

The District had outstanding revenue bonded indebtedness at June 30, 2006 of \$3,290,000.

The District had outstanding \$6,800,000 in revenue bond anticipatory notes at June 30, 2006.

The District had capital loan notes payable of \$423,189 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy of \$152,642 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 1,050,000	1,395,000	-24.7%
Revenue bonds	3,290,000	3,865,000	-14.9%
Revenue BANS	6,800,000	6,800,000	0.0%
Capital loan notes	423,189	499,334	-15.2%
Early retirement	152,642	118,456	28.9%
Totals	<u>\$ 11,715,831</u>	<u>12,677,790</u>	<u>-7.6%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced declining enrollment for a few years, the District's October 2006 certified enrollment showed an increase of 30.1 students from the prior year.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period which began in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Peschon, District Business Manager, Spirit Lake Community School District, 900 20<sup>th</sup> Street, Spirit Lake, Iowa, 51360.

## BASIC FINANCIAL STATEMENTS



SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 7,236,227	39,540	7,275,767
Receivables:			
Property tax:			
Delinquent	46,908	0	46,908
Succeeding year	6,865,271	0	6,865,271
Income surtax	231,862	0	231,862
Accounts	142,933	163	143,096
Due from other governments	303,996	0	303,996
Inventories	0	4,904	4,904
Capital assets, net of accumulated depreciation (Note 5)	18,713,695	31,735	18,745,430
<b>Total Assets</b>	<b>33,540,892</b>	<b>76,342</b>	<b>33,617,234</b>
<b>Liabilities</b>			
Accounts payable	826,178	0	826,178
Salaries and benefits payable	938,690	27,255	965,945
Accrued interest payable	106,246	0	106,246
Deferred revenue:			
Succeeding year property tax	6,865,271	0	6,865,271
Other	18,463	0	18,463
Unearned revenue	0	854	854
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	335,000	0	335,000
Revenue bonds payable	600,000	0	600,000
Capital loan notes	39,055	0	39,055
Early retirement payable	152,642	0	152,642
Portion due after one year:			
General obligation bonds payable	715,000	0	715,000
Revenue bonds payable	2,690,000	0	2,690,000
Revenue bans payable	6,800,000	0	6,800,000
Capital loan notes	384,134	0	384,134
<b>Total Liabilities</b>	<b>20,470,679</b>	<b>28,109</b>	<b>20,498,788</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	12,668,146	31,735	12,699,881
Restricted for:			
Talented and gifted	6,020	0	6,020
Salary improvement program	12,736	0	12,736
Physical plant and equipment levy	114,509	0	114,509
Other special revenue purposes	106,918	0	106,918
Unrestricted	161,884	16,498	178,382
<b>Total Net Assets</b>	<b>\$ 13,070,213</b>	<b>48,233</b>	<b>13,118,446</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 4,879,101	696,195	539,909	(3,642,997)	0	(3,642,997)
Special instruction	984,914	0	59,969	(924,945)	0	(924,945)
Other instruction	1,165,331	304,586	0	(860,745)	0	(860,745)
	<u>7,029,346</u>	<u>1,000,781</u>	<u>599,878</u>	<u>(5,428,687)</u>	<u>0</u>	<u>(5,428,687)</u>
Support services:						
Student services	241,135	0	0	(241,135)	0	(241,135)
Instructional staff services	612,915	0	0	(612,915)	0	(612,915)
Administration services	849,510	0	0	(849,510)	0	(849,510)
Operation and maintenance of plant services	1,132,812	0	0	(1,132,812)	0	(1,132,812)
Transportation services	338,521	0	0	(338,521)	0	(338,521)
	<u>3,174,893</u>	<u>0</u>	<u>0</u>	<u>(3,174,893)</u>	<u>0</u>	<u>(3,174,893)</u>
Other expenditures:						
Facilities and acquisitions	172,865	0	90,000	(82,865)	0	(82,865)
Long-term debt interest	556,860	0	0	(556,860)	0	(556,860)
AEA flowthrough	372,754	0	372,754	0	0	0
Depreciation (unallocated) *	437,470	0	0	(437,470)	0	(437,470)
	<u>1,539,949</u>	<u>0</u>	<u>462,754</u>	<u>(1,077,195)</u>	<u>0</u>	<u>(1,077,195)</u>
Total governmental activities	11,744,188	1,000,781	1,062,632	(9,680,775)	0	(9,680,775)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	432,414	292,535	130,978	0	(8,901)	(8,901)
Before and After School Program	37,318	45,347	0	0	8,029	8,029
Total business-type activities	<u>469,732</u>	<u>337,882</u>	<u>130,978</u>	<u>0</u>	<u>(872)</u>	<u>(872)</u>
Total	<u>\$ 12,213,920</u>	<u>1,338,663</u>	<u>1,193,610</u>	<u>(9,680,775)</u>	<u>(872)</u>	<u>(9,681,647)</u>
General Revenues:						
Local tax for:						
General purposes				\$ 5,661,508	0	5,661,508
Debt Service				408,852	0	408,852
Capital outlay				197,169	0	197,169
Local option sales and services tax				1,347,492	0	1,347,492
Unrestricted state grants				3,050,157	0	3,050,157
Unrestricted investment earnings				341,338	844	342,182
Other				1,638,709	0	1,638,709
Total general revenues				<u>12,645,225</u>	<u>844</u>	<u>12,646,069</u>
Changes in net assets				2,964,450	(28)	2,964,422
Net assets beginning of year				10,105,763	48,261	10,154,024
Net assets end of year				<u>\$ 13,070,213</u>	<u>48,233</u>	<u>13,118,446</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Debt Service	Special Revenue Funds	Total
<b>Assets</b>					
Cash and pooled investments	\$ 1,161,567	4,285,580	1,460,036	329,044	7,236,227
Receivables:					
Property tax:					
Delinquent	40,709	0	3,198	3,001	46,908
Succeeding year	5,939,609	0	382,706	542,956	6,865,271
Income surtax	231,862	0	0	0	231,862
Interfund	6,846	0	0	0	6,846
Accounts	141,349	0	0	1,584	142,933
Due from other governments	50,984	253,012	0	0	303,996
<b>Total Assets</b>	<b>\$ 7,572,926</b>	<b>4,538,592</b>	<b>1,845,940</b>	<b>876,585</b>	<b>14,834,043</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Interfund payable	\$ 0	0	0	6,846	6,846
Accounts payable	25,519	800,617	0	42	826,178
Salaries and benefits payable	938,178	512	0	0	938,690
Deferred revenue:					
Succeeding year property tax	5,939,609	0	382,706	542,956	6,865,271
Income surtax	231,862	0	0	0	231,862
Other	18,463	0	0	0	18,463
Total liabilities	7,153,631	801,129	382,706	549,844	8,887,310
Fund balances:					
Reserved for:					
Talented and gifted	6,020	0	0	0	6,020
Salary improvement program	12,736	0	0	0	12,736
Debt service	0	0	1,463,234	0	1,463,234
Unreserved	400,539	3,737,463	0	326,741	4,464,743
Total fund balances	419,295	3,737,463	1,463,234	326,741	5,946,733
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,572,926</b>	<b>4,538,592</b>	<b>1,845,940</b>	<b>876,585</b>	<b>14,834,043</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

<b>Total fund balances of governmental funds (page 16)</b>	\$ 5,946,733
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	18,713,695
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	231,862
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(106,246)
Long-term liabilities, including early retirement, general obligation bonds, revenue bonds and capital loan notes, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(11,715,831)
<b>Net assets of governmental activities (page 14)</b>	<u><u>\$ 13,070,213</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Special Revenue Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 5,475,966	1,347,492	408,852	382,711	7,615,021
Tuition	696,195	0	0	0	696,195
Other	222,711	188,614	114,897	348,411	874,633
State sources	3,772,691	0	0	0	3,772,691
Federal sources	250,098	0	0	0	250,098
Total revenues	10,417,661	1,536,106	523,749	731,122	13,208,638
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	4,681,702	0	0	99,623	4,781,325
Special instruction	984,914	0	0	0	984,914
Other instruction	916,624	0	0	248,707	1,165,331
	6,583,240	0	0	348,330	6,931,570
Support services:					
Student services	241,135	0	0	0	241,135
Instructional staff services	595,803	0	0	0	595,803
Administration services	796,054	0	1,000	60,456	857,510
Operation and maintenance of plant services	1,019,599	0	0	74,991	1,094,590
Transportation services	274,500	0	0	87,389	361,889
	2,927,091	0	1,000	222,836	3,150,927
Other expenditures:					
Facilities acquisitions	0	4,674,261	0	173,064	4,847,325
Long-term debt:					
Principal	0	0	996,145	0	996,145
Interest	0	0	581,337	0	581,337
AEA flowthrough	372,754	0	0	0	372,754
	372,754	4,674,261	1,577,482	173,064	6,797,561
Total expenditures	9,883,085	4,674,261	1,578,482	744,230	16,880,058
Excess(deficiency) of revenues over(under) expenditures	534,576	(3,138,155)	(1,054,733)	(13,108)	(3,671,420)
Other financing sources(uses):					
Transfers in	0	0	1,354,628	0	1,354,628
Transfers out	(93,317)	(1,261,311)	0	0	(1,354,628)
Donations	0	1,500,000	0	0	1,500,000
Total other financing sources(uses)	(93,317)	238,689	1,354,628	0	1,500,000
Net change in fund balances	441,259	(2,899,466)	299,895	(13,108)	(2,171,420)
Fund balance beginning of year	(21,964)	6,636,929	1,163,339	339,849	8,118,153
Fund balance end of year	\$ 419,295	3,737,463	1,463,234	326,741	5,946,733

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (2,171,420)

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 4,812,716	
Depreciation expense	<u>(663,282)</u>	4,149,434

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Repaid	996,145
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

24,477

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	<u>(34,186)</u>
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Changes in net assets of governmental activities (page 15) \$ 2,964,450

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	Before and		
	School	After School	
	Nutrition	Program	Total
<b>Assets</b>			
Cash and pooled investments	\$ 23,460	16,080	39,540
Accounts receivable	163	0	163
Inventories	4,904	0	4,904
Capital assets, net of accumulated depreciation (Note 5)	31,735	0	31,735
<b>Total Assets</b>	<b>60,262</b>	<b>16,080</b>	<b>76,342</b>
<b>Liabilities</b>			
Salaries and benefits payable	19,204	8,051	27,255
Unearned revenue	854	0	854
<b>Total Liabilities</b>	<b>20,058</b>	<b>8,051</b>	<b>28,109</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	31,735	0	31,735
Unrestricted	8,469	8,029	16,498
<b>Total Net Assets</b>	<b>\$ 40,204</b>	<b>8,029</b>	<b>48,233</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	School Nutrition	Before and After School Program	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 292,535	45,347	337,882
TOTAL OPERATING REVENUES	292,535	45,347	337,882
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	161,177	32,324	193,501
Benefits	21,496	2,840	24,336
Services	315	0	315
Supplies	243,543	2,154	245,697
Depreciation	5,883	0	5,883
TOTAL OPERATING EXPENSES	432,414	37,318	469,732
OPERATING INCOME (LOSS)	(139,879)	8,029	(131,850)
NON-OPERATING REVENUES:			
State sources	5,231	0	5,231
Federal sources	125,747	0	125,747
Interest income	844	0	844
TOTAL NON-OPERATING REVENUES	131,822	0	131,822
Change in net assets	(8,057)	8,029	(28)
Net assets beginning of year	48,261	0	48,261
Net assets end of year	\$ 40,204	8,029	48,233

SEE NOTES TO FINANCIAL STATEMENTS.



SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	School Nutrition	Before and After School Program	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 280,156	0	280,156
Cash received from miscellaneous	13,303	45,347	58,650
Cash payments to employees for services	(174,619)	(27,113)	(201,732)
Cash payments to suppliers for goods or services	(224,485)	(2,154)	(226,639)
Net cash provided by(used in) operating activities	(105,645)	16,080	(89,565)
Cash flows from non-capital financing activities:			
State grants received	5,231	0	5,231
Federal grants received	106,173	0	106,173
Net cash provided by non-capital financing activities	111,404	0	111,404
Cash flows from capital and related financing activities:			
Purchase of capital assets	(7,600)	0	(7,600)
Cash flows from investing activities:			
Interest on investments	844	0	844
Net increase(decrease) in cash and cash equivalents	(997)	16,080	15,083
Cash and cash equivalents at beginning of year	24,457	0	24,457
Cash and cash equivalents at end of year	\$ 23,460	16,080	39,540
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (139,879)	8,029	(131,850)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	19,574	0	19,574
Depreciation	5,883	0	5,883
Increase in inventories	(201)	0	(201)
Decrease in accounts receivable	70	0	70
Increase in salaries and benefits payable	8,054	8,051	16,105
Increase in unearned revenue	854	0	854
Net cash provided by(used in) operating activities	\$ (105,645)	16,080	(89,565)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 23,460	16,080	39,540

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$19,574.

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Spirit Lake Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Spirit Lake, Iowa, and the predominate agricultural territory in Dickinson County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Spirit Lake Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Spirit Lake Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Dickinson County Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund and the Before and After School Program. The Nutrition fund is used to account for the food service operations of the District. The Before and After School Program is used to account for the programs held before and after school.

### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for

enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2006 balances of interfund accounts receivable or payable have been recorded.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-30 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Diversified Portfolio

Amortized Cost
<u>\$ 3,609,070</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue, Management Levy	<u>\$ 6,846</u>

**(4) Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 93,317
Debt Service	Capital Projects	1,261,311
Total		<u>\$ 1,354,628</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 133,452	7,600	560	140,492
Less accumulated depreciation	103,434	5,883	560	108,757
Business-type activities capital assets, net	<u>\$ 30,018</u>	<u>1,717</u>	<u>0</u>	<u>31,735</u>



	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 300,000	0	0	300,000
Construction in progress	953,541	4,674,460	600,000	5,028,001
Total capital assets not being depreciated	1,253,541	4,674,460	600,000	5,328,001
Capital assets being depreciated:				
Buildings	18,055,024	600,000	0	18,655,024
Land improvements	1,860,773	0	0	1,860,773
Machinery and equipment	2,381,009	138,256	0	2,519,265
Total capital assets being depreciated	22,296,806	738,256	0	23,035,062
Less accumulated depreciation for:				
Buildings	6,622,296	362,774	0	6,985,070
Land improvements	1,045,304	74,696	0	1,120,000
Machinery and equipment	1,318,486	225,812	0	1,544,298
Total accumulated depreciation	8,986,086	663,282	0	9,649,368
Total capital assets being depreciated, net	13,310,720	74,974	0	13,385,694
Governmental activities capital assets, net	\$ 14,564,261	4,749,434	600,000	18,713,695

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 112,572
Support services:	
Instructional staff	17,112
Administration	2,000
Operation and maintenance of plant	45,447
Transportation	48,681
	225,812
Unallocated depreciation	437,470
Total governmental activities depreciation expense	\$ 663,282
Business-type activities:	
Food services	\$ 5,883
Total business-type activities depreciation expense	\$ 5,883

#### (6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,395,000	0	345,000	1,050,000	335,000
Revenue bonds	3,865,000	0	575,000	3,290,000	600,000
Revenue BANS	6,800,000	0	0	6,800,000	0
Capital loan notes	499,334	0	76,145	423,189	39,055
Early Retirement	118,456	152,642	118,456	152,642	152,642
Total	\$ 12,677,790	152,642	1,114,601	11,715,831	1,126,697

#### General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2001		
		Principal	Interest	Total
2007	4.500 %	\$ 335,000	47,706	382,706
2008	4.500	350,000	32,632	382,632
2009	4.625	365,000	16,882	381,882
Total		\$ 1,050,000	97,220	1,147,220

#### Revenue Bonds Payable

Details of the District's June 30, 2006 revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2001		
		Principal	Interest	Total
2007	4.450 %	\$ 600,000	149,527	749,527
2008	4.450	630,000	122,828	752,828
2009	4.550	655,000	94,792	749,792
2010	4.600	685,000	64,990	749,990
2011	4.650	720,000	33,480	753,480
Total		\$ 3,290,000	465,617	3,755,617

#### Revenue BANS Payable

During the year ended June 30, 2005, the District issued \$6,800,000 of revenue bond anticipatory notes. Details of the District's June 30, 2006 revenue bans indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 1, 2005			Bond Issue of June 1, 2005			Total		
	Interest		Principal	Interest		Principal	Interest	Principal	Interest
	Rates			Rates					
2007	5.00 %	\$ 0	285,000	3.75 %	0	41,250		326,250	326,250
2008	5.00	5,700,000	285,000	3.75	1,100,000	41,250	6,800,000	326,250	7,126,250
Total		\$ 5,700,000	570,000		1,100,000	82,500	6,800,000	652,500	7,452,500

#### Capital Loan Notes

During the year ended June 30, 2002, the District issued Energy Management Capital Loan Notes to build a wind turbine. Details of the District's June 30, 2006 capital loan notes indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 2, 2001			
	Interest		Principal	Total
	Rates			
2007	5.100 %	\$ 39,055	7,604	46,659
2008	5.100	80,159	13,159	93,318
2009	5.100	82,998	10,310	93,308
2010	5.100	86,004	7,314	93,318
2011	5.100	89,155	4,163	93,318
2012	5.100	45,818	849	46,667
Total		\$ 423,189	43,399	466,588

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is equal to percentage (based on age of employee) of the difference between the employee's last year's teaching salary, the base salary and years of service. Early retirement benefits paid for the year ended June 30, 2006 totaled \$118,456.

#### **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75%

of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$372,860, \$371,668, and \$356,182 respectively, equal to the required contributions for each year.

**(8) Risk Management**

Spirit Lake Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$372,754 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Construction Commitment**

The District has entered into various contracts totaling \$12,500,000 for the gym and auditorium projects. As of June 30, 2006, costs of \$5,028,001 had been incurred against the contracts. The balance of \$7,471,999 remaining at June 30, 2006 will be paid as work on the projects progresses.

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 9,185,849	338,726	9,524,575	7,583,344	7,583,344	1,941,231
Intermediate sources	0	0	0	600	600	(600)
State sources	3,772,691	5,231	3,777,922	3,739,898	3,739,898	38,024
Federal sources	250,098	125,747	375,845	290,000	290,000	85,845
Total revenues	13,208,638	469,704	13,678,342	11,613,842	11,613,842	2,064,500
Expenditures:						
Instruction	6,931,570	0	6,931,570	8,436,788	8,436,788	1,505,218
Support services	3,150,927	0	3,150,927	3,273,116	3,273,116	122,189
Non-instructional programs	0	469,732	469,732	385,000	385,000	(84,732)
Other expenditures	6,797,561	0	6,797,561	2,532,949	2,532,949	(4,264,612)
Total expenditures	16,880,058	469,732	17,349,790	14,627,853	14,627,853	(2,721,937)
Deficiency of revenues under expenditures	(3,671,420)	(28)	(3,671,448)	(3,014,011)	(3,014,011)	(657,437)
Other financing sources, net	1,500,000	0	1,500,000	848,433	848,433	651,567
Deficiency of revenues under expenditures	(2,171,420)	(28)	(2,171,448)	(2,165,578)	(2,165,578)	(5,870)
Balance beginning of year	8,118,153	48,261	8,166,414	3,498,490	3,498,490	4,667,924
Balance end of year	\$ 5,946,733	48,233	5,994,966	1,332,912	1,332,912	4,662,054

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION



SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 110,701	105,376	112,967	329,044
Receivables:				
Property tax:				
Current year delinquent	1,459	0	1,542	3,001
Succeeding year	310,000	0	232,956	542,956
Accounts	0	1,584	0	1,584
<b>Total Assets</b>	<b>\$ 422,160</b>	<b>106,960</b>	<b>347,465</b>	<b>876,585</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 0	42	0	42
Interfund payable	6,846	0	0	6,846
Deferred revenue:				
Succeeding year property tax	310,000	0	232,956	542,956
Total liabilities	316,846	42	232,956	549,844
Fund balances:				
Unreserved	105,314	106,918	114,509	326,741
Total fund balances	105,314	106,918	114,509	326,741
<b>Total Liabilities and Fund Balances</b>	<b>\$ 422,160</b>	<b>106,960</b>	<b>347,465</b>	<b>876,585</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 185,542	0	197,169	382,711
Other	1,003	253,899	93,509	348,411
TOTAL REVENUES	186,545	253,899	290,678	731,122
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	99,623	0	0	99,623
Other instruction	0	248,707	0	248,707
Support services:				
Administration services	60,456	0	0	60,456
Operation and maintenance of plant services	74,991	0	0	74,991
Student transportation	15,340	0	72,049	87,389
Other expenditures:				
Facilities acquisitions	0	0	173,064	173,064
TOTAL EXPENDITURES	250,410	248,707	245,113	744,230
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(63,865)	5,192	45,565	(13,108)
FUND BALANCE BEGINNING OF YEAR	169,179	101,726	68,944	339,849
FUND BALANCE END OF YEAR	\$ 105,314	106,918	114,509	326,741

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
MS Drama	\$ 1,033	764	1,257	540
HS Drama	746	1,758	1,004	1,500
MS Vocal	111	859	538	432
HS Vocal	1,124	7,017	6,113	2,028
MS Instrumental Music	7,082	4,767	3,017	8,832
HS Instrumental Music	1,745	14,871	12,759	3,857
Co-Ed Athletics	9,420	62,495	52,361	19,554
Cross Country	0	720	720	0
Boys Basketball	0	11,224	11,224	0
Boys Football	0	9,127	9,127	0
Boys Soccer	0	2,974	2,974	0
Boys Baseball	101	2,913	3,035	(21)
Boys Track	0	8,487	8,487	0
Boys Tennis	0	630	630	0
Boys Golf	0	1,221	1,221	0
Boys Wrestling	0	2,278	2,278	0
Girls Basketball	0	4,123	4,123	0
Girls Volleyball	0	5,080	5,080	0
Girls Softball	101	4,321	4,443	(21)
Girls Track	0	2,252	2,252	0
Girls Tennis	0	587	587	0
Girls Golf	0	317	317	0
Class of 2005	1,610	0	1,610	0
Class of 2006	1,009	1,967	2,976	0
Class of 2007	2,477	1,095	2,283	1,289
Class of 2008	1,468	967	0	2,435
Class of 2009	441	1,011	0	1,452
Class of 2010	271	213	0	484
Class of 2011	135	209	0	344
Class of 2012	0	206	0	206
Class of 2013	0	103	0	103
Pictures	2,445	3,870	2,672	3,643
Investments	208	352	150	410
Student Insurance	115	0	115	0
Activity tickets	0	45	0	45
Mexico Club	7,003	19,064	25,490	577
Pan Am Club	431	0	431	0
Video Club	702	208	486	424
Skills-USA	975	807	1,535	247
Annual	12,442	11,196	10,408	13,230
SLHS Quiz Bowl	1,855	739	1,520	1,074
Classes	255	3,085	1,874	1,466
Elem Coca Cola Fund	1,782	372	481	1,673
MS Coca Cola Fund	692	721	658	755
HS Coca Cola Fund	700	2	633	69
MS SAC	9,627	29,086	26,513	12,200
HS SAC	3,311	4,674	4,534	3,451
MOC	1,208	1,374	1,567	1,015
Elementary Parents	22,889	15,442	21,142	17,189
Culinary Arts CA	6,165	5,745	6,155	5,755
Peer Helper	38	1	0	39
Due Other Fund	9	2,560	1,927	642
Total	\$ 101,726	253,899	248,707	106,918

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	7,615,021	7,337,029	5,346,101	5,589,269
Tuition		696,195	884,949	689,358	658,805
Other		874,633	347,694	1,501,512	1,686,729
Intermediate sources		0	0	445	1,383
State sources		3,772,691	3,439,146	3,214,284	3,327,968
Federal sources		250,098	740,807	693,673	252,925
Total	\$	13,208,638	12,749,625	11,445,373	11,517,079
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	4,781,325	4,753,828	4,703,110	4,401,150
Special instruction		984,914	1,243,321	1,798,261	1,484,307
Other instruction		1,165,331	1,093,118	487,118	656,684
Support services:					
Student services		241,135	208,887	190,887	201,786
Instructional staff services		595,803	453,087	454,653	395,621
Administration services		857,510	930,129	879,306	796,378
Operation and maintenance of plant services		1,094,590	876,437	909,186	810,144
Transportation services		361,889	273,057	313,194	243,171
Other expenditures:					
Facilities acquisitions		4,847,325	1,656,854	1,253,535	1,952,221
Long-term debt:					
Principal		996,145	984,547	905,095	857,880
Interest		581,337	207,437	434,408	369,272
AEA flow-through		372,754	347,962	344,284	361,532
Total	\$	16,880,058	13,028,664	12,673,037	12,530,146

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Spirit Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Spirit Lake Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 3, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spirit Lake Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

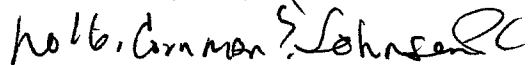
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spirit Lake Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Spirit Lake Community School District and other parties to whom Spirit Lake Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spirit Lake Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

October 3, 2006

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund - During our audit issues arose about the propriety of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

More specifically, we noted expenditures for instructional supplies being purchased from the Pictures and Elementary Parent accounts.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will implement and monitor alternatives.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the certified budget amounts in the non-instructional programs and other expenditures functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will review our procedures and will amend as needed in the future.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kim Kirschbaum, Bus Driver Spouse owns Bob's Repair and Tow	Parts/Supplies	\$8,358
Jean Boekout, High School Office Manager Spouse owns Wally's Refrigeration	Repairs	\$366
Clifford Garvey, Board Member	Services	\$1,268
Julie Nodland, Board Member Owns Prarie Rose Wood	Supplies	\$296

In accordance with Attorney General's opinion dated November 9, 1976, the above transactions with the spouses of the employees do not appear to represent a conflict of interest.

In accordance with 279.7A of the Code of Iowa, the above transactions with the board members do not appear to represent a conflict of interest.

The District currently has a program whereby employees of the District are allowed to purchase computers with the District paying the original cost and the employees reimbursing the District via payroll deduction. Current year activity by employees in this is as follows:



	Beginning Receivable	Computer Purchased	Amount Received	Ending Receivable
Akin, Shane	\$ 296	0	296	0
Bruinsma, Terry	283	0	283	0
Caughey, Sheryl	86	0	86	0
Daniels, Matthew	86	0	0	86
Dean, Kara	86	0	86	0
Erlandson, Barb	0	1,578	920	658
Graff, Randy	628	0	443	185
Greer, Elaine	391	0	391	0
Hanson, Steve	264	0	264	0
Hellert, Art	857	0	468	389
Johnson, Doug	990	0	792	198
Jones, Kelly	180	0	180	0
Laven, Sara	352	0	352	0
Loerch, Randy	372	0	372	0
Markley, Jerry	248	0	174	74
Miller, Terry	167	0	167	0
Petty, Scott	321	0	321	0
Studer, Ellen	1,166	0	1,166	0
Thompson, Kathy	266	0	266	0
Toews, Marcy	570	0	570	0
Walz, John	1,309	0	984	325
Wiersma, Rick	1,088	0	653	435
	<u>\$ 9,710</u>	<u>1,578</u>	<u>8,938</u>	<u>2,350</u>

The above transactions do not appear to represent a conflict of interest per a letter by the District's legal council.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition - The District had negative account balances within the Special Revenue, Student Activity Fund

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will monitor these funds and investigate alternatives to eliminate the deficit in the future.

Conclusion - Response accepted.